

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6989

BILL NUMBER: SB 340

NOTE PREPARED: Mar 22, 2006

BILL AMENDED: Mar 14, 2006

SUBJECT: Salary and PERF Protection for State Employees.

FIRST AUTHOR: Sen. Wyss

FIRST SPONSOR: Rep. Borror

BILL STATUS: Enrolled

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill has the following provisions:

Demotion: The bill provides that the state's salary and wage schedules must provide that an appointing authority is not required to reduce the salary of an employee who is demoted, unless the appointing authority determines that the salary reduction is warranted for disciplinary reasons or other good cause.

PERF Withdrawal: The bill establishes a process to withdraw state employees from the Public Employees' Retirement Fund and allow certain state employees to retire when the employees' particular departmental, occupational, or other classifications are terminated from state employment as a result of: (1) a lease or other transfer of state property to a nongovernmental entity; or (2) a contractual arrangement with a nongovernmental entity to perform certain state functions.

Funding Sources: This bill establishes the funding sources for the amounts that the state is required to contribute to PERF for the purchase of up to 24 months of creditable service needed by a terminated employee who elects normal or early retirement.

Insurance Policy: The bill authorizes the state to purchase and maintain an insurance policy that provides coverage that supplements coverage provided under a United States military health care plan.

Effective Date: December 31, 2005 (retroactive); Upon passage; July 1, 2006.

Explanation of State Expenditures: *PERF Withdrawal:* The ultimate impact of this bill will depend on administrative actions in terms of leasing or transferring state property to a nongovernmental entity or

contracting with a nongovernmental entity to perform state functions and the number and specific situations of the employees involved.

There are three potential cases where a fiscal impact may occur.

(1) The bill permits any current state PERF member with less than 10 years of service whose employment is terminated because of a lease or other transfer of state property to a nongovernmental entity, or because of a contractual arrangement with a nongovernmental entity, to become fully vested in a pension benefit. The actuarial cost for this provision is minor since such PERF members are usually young with low salaries, and such members are likely to request a refund of their annuity savings account, thereby forfeiting their accrued pension benefit. The estimated fiscal impact for 100 such PERF members is approximately \$65,800 with a 30-year amortization of \$5,100. The funds affected, on average, are the state General Fund (55%), or \$2,805, and various dedicated funds (45%), or \$2,295, per 100 affected employees.

(2) The bill also permits any current state PERF member who is at least 65 and whose employment is terminated because of a lease or other transfer of state property to a nongovernmental entity, or because of a contractual arrangement with a nongovernmental entity, to be able to retire from PERF even if the member has less than 10 years of service. The only fiscal impact that would potentially occur would be for those members who would have, under normal circumstances, terminated employment prior to earning 10 years of service. The estimated fiscal impact for 10 such members (there are probably few who would fall in this category) to be about \$22,500 with a 30-year amortization of \$1,700. The funds affected, on average, are the state General Fund (55%), or \$935, and various dedicated funds (45%), or \$765, per 10 affected employees.

(3) The bill also permits any current state PERF member who is within 24 months of early or normal retirement and whose employment is terminated because of a lease or other transfer of state property to a nongovernmental entity, or because of a contractual arrangement with a nongovernmental entity, to have the remaining service purchased by the state to permit the member to qualify for immediate retirement. This provision would apply to all eligible members. The estimated fiscal impact for 100 such members is approximately \$721,000 with a 30-year amortization of \$55,500. The funds affected are the state General Fund (55%), or \$30,525, and various dedicated funds (45%), or \$24,975, per 100 affected employees.

[NOTE: The potential expenditures listed above are proportional. That is, if a category has twice as many affected employees as illustrated, the estimated fiscal impact would double as well. The percentage splits in the affected funds represent the amount each fund contributes to the state budget.]

Besides the actuarial cost, there may also be additional administrative costs. These administrative costs would arise from the computation of benefits and the confirmation of credited service that may not have needed to be done under normal circumstances. Potential administrative costs are indeterminable at this time.

Funding Sources: The bill identifies the following funding sources for payments: (1) if the state receives monetary payments under a lease or contractual arrangement, the proceeds of the monetary payments received by the state; (2) if the state does not receive any monetary payments under a lease or contractual arrangement, any remaining appropriations made to the state department, agency, or other entity terminating the employees; and (3) if the sources described in parts 1 and 2 do not fully fund the amounts that the state is required to contribute to the fund, the PERF Board is to request that the General Assembly appropriate the amount necessary to fully fund the state's required contribution in the next state biennial budget.

Supplemental Insurance Coverage: The bill authorizes the state to purchase and maintain an insurance policy that provides coverage that supplements coverage provided under a United States military health care plan. Based on current data and the state's health premium costs, the state could potentially save approximately \$6.75 M annually.

Background Information on Supplemental Coverage to Military Health Plan: There are approximately 22,083 military retirees in the state of Indiana, and 8,885 of them are age 65 or over. Specific data on the number of state employees who are retired military and who would qualify for this plan are not available; however, it is estimated that between 1% and 3%, based on the national average of retired military and participation rates in other states, would qualify for the plan. The state Department of Personnel has estimated 3% for Indiana.

Currently, the state has 32,728 employees participating in health coverage. Of the total, 12,333, or 38%, have single coverage, while 20,395, or 62%, have family coverage. There are an estimated 982 state employees who are retired military, assuming 3% of the 32,278 state employees. Of the 982 state employees, about 373 would have single coverage, while 609 would have family coverage. The average annual premium for single coverage under the current state plans is \$4,004, while the average annual premium for family coverage is \$11,011. The total estimated cost for single coverage for the estimated 373 single retired military who are state employees would be approximately \$1.5 M, while the total estimated cost for the estimated 609 who would elect family coverage would be approximately \$6.7 M.

TriCare is the health insurance program provided to the armed forces by the Department of Defense. Estimates for TriCare supplement plans vary by state and employer. However, based on data provided by a firm offering TriCare supplemental coverage, the annual premiums for single coverage for the estimated 373 employees are estimated to cost approximately \$269,000. The monthly premium is \$60 per month for singles.

The annual premiums for the estimated 609 state employees who would be eligible for family coverage are estimated to cost approximately \$1.2 M. This is based on an employee plus two or more in the family (one spouse and two children for \$160 per month).

Based on these data and the current state health premium costs, the state could save approximately \$6.75 M. Actual savings are predicated upon the number of participants, their marital status, the existing state health care premiums, and the TriCare supplemental plan premiums.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of Personnel; Public Employees' Retirement Fund.

Local Agencies Affected:

Information Sources: Doug Todd of McCready & Keane, Inc., actuaries for PERF, 317 576-1508.

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